UCLA

2007-2008 ANNUAL FINANCIAL REPORT

UCLA

Innovation is the key to the future. And innovation thrives at UCLA, one of the leading public research institutions in the world.

UCLA faculty and students are pushing the boundaries of knowledge in genetics, nanotechnology, engineering, digital humanities, medical science and dozens of other fields. Bruin researchers are working with industry manufacturers and investors to foster innovations that will transform our world. And UCLA scholars are exploring new frontiers in the humanities and discovering new solutions to our society's most formidable challenges.

In the following pages, you'll find many examples of UCLA's innovations — and the faculty and students who help make UCLA such an amazing place. Grounded in world-class research and academics, and committed to a mission of service and teaching, they are dedicated to building a bright and better future for all of us.

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HIGHLIGHTS

UNIVERSITY OF CALIFORNIA, LOS ANGELES

CAMPUS AND FINANCIAL HIGHLIGHTS

(dollars in thousands) — *For Fiscal Years Ended June 30*

	2008	2007
Enrollment - Fall Quarter		
Undergraduates	25,929	25,432
Graduates, and Interns and Residents	12,971	12,786
Employee Count		
Full-Time Equivalent	28,737	27,806
(includes approximately 6,000 casuals and students)		
Campus Land Area	419 acres	419 acres
Total Net Assets:		
Total Current Assets	$ 2,209,207	$ 1,933,422
Total Noncurrent Assets	4,419,793	4,165,042
Total Current Liabilities	831,935	705,677
Total Noncurrent Liabilities	854,065	851,251
End of Year Net Assets	4,943,000	4,541,536
Operating and Nonoperating Revenue and Expenditures:		
Operating Revenue	$ 3,273,591	$ 3,037,168
Nonoperating Revenue (Core Activities)	843,494	814,225
	4,117,085	$ 3,851,393
Principal Sources of Operating Revenue:		
Student Tuition and Fees	$ 345,037	$ 310,724
Grants and Contracts	863,205	832,915
Sales and Services	2,011,949	1,845,892
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	$ 642,755	$ 603,571
Operating Expense	$ 3,945,258	$ 3,644,928
Nonoperating Expense (Core Activities)	40,829	28,013
	$ 3,986,087	$ 3,672,941
Principal Operating Expenditures:		
Salaries and Wages	$ 2,105,857	$ 1,935,290
Benefits	425,976	393,544
Supplies and Materials	445,248	410,812
Other Operating Expenditures	622,015	593,521

• *See Notes to Financial Statements.*

letter from Chancellor Gene D. Block

In 2007-08, my first year as chancellor of UCLA, the state of California maintained its funding commitments to the university. Combined with sound financial management, the state commitments allowed UCLA to advance its mission as one of the world's top research universities.

In fall 2007, UCLA enrolled 4,564 new freshmen, out of 50,755 applicants, and 3,321 of the 13,451 transfer students who applied for undergraduate admission. In the 2007-08 academic year, we awarded 7,083 bachelor's, 2,561 master's, 752 doctoral and 609 professional degrees.

Our students continued to demonstrate not only their academic ability, but also their dedication to making the world better. Three UCLA students received the 2008 UCLA Charles E. Young Humanitarian Award for their extraordinary commitment to public service. Yecenia Olmos worked with Project Literacy, a UCLA student-run organization that provides tutoring in underserved communities. Neilesh Patel created HealthCare Volunteer, a Web site that connects volunteers with public health organizations around the world. Cynthia Reasner created the SEED Mentoring Project, a program that pairs UCLA students with foster youth.

During 2007-08, UCLA received $892 million in total research awards. Although the rankings have not yet been compiled by the National Science Foundation (NSF), our number will most likely place us in the top five in the nation in the amount of research funding won by faculty.

Not surprisingly, our world-class faculty continued to win prestigious acclaim. Professor Saul Friedlander and Professor Emeritus Daniel Walker Howe, both of our history department, received Pulitzer Prizes. Among others, seven faculty members were elected to the American Academy of Arts and Sciences, two received Sloan Research Fellowships and Professor Terence Tao won the NSF's 2008 Alan T. Waterman Award.

The university's community engagement continued to grow, helping to improve the quality of life in Los Angeles while informing our own research and learning. UCLA's faculty, staff and students are engaged in partnerships with 200 civic

Todd Cheney/UCLA Photography

"Today, at UCLA, we are continuing to define just what it means to be a world-class public research university in a thriving urban setting in the 21st century. We have before us a remarkable opportunity."

organizations through our UCLA in L.A. initiative alone. More than half of our undergraduates participate in volunteer activities or community service. This year, we started planning for an expanded civic engagement initiative that will enable us to focus comprehensively on important issues facing the Los Angeles community.

As we have every year since 1979, we recognized outstanding people for their contributions to society with The UCLA Medal, the university's highest honor. Recipients in 2008 were philanthropist Lloyd Cotsen, whose contributions have enabled the Cotsen Institute of Archaeology at UCLA to become the nation's leader in the field; UCLA alumna Linda Griego, former president and CEO of Rebuild L.A.; businessman and philanthropist Richard Ziman, who endowed the interdisciplinary Richard S. Ziman Center for Real Estate at UCLA; and Charles M. Vest, president of the National Academy of Engineering.

In June, we opened the Ronald Reagan UCLA Medical Center. *U.S. News & World Report* ranked the medical center among the nation's top three hospitals, and for the 19th consecutive year, the Best in the West. During the year, we formally dedicated the California NanoSystems Institute building, the UCLA Biomedical Sciences Research Building and Orthopaedic Hospital Research Center, the Eli and Edythe Broad Center of Regenerative Medicine and Stem Cell Research, the Engineering V building and the Krieger Child Care Center's expansion.

UCLA's athletic teams earned three more NCAA team championships, bringing our national-record total to 103. The women's water polo team won its fourth consecutive NCAA title and the men's golf and women's tennis teams also brought home championship trophies.

In 2007-08, gifts and pledges to UCLA totaled $481 million, including eight of $10 million or more. The Packard Humanities Institute's gift-in-kind, valued at $39 million, supports a capital project in Santa Clarita to benefit the UCLA Film and Television Archive. A $30 million gift from Herb and Lani Alpert through The Herb Alpert Foundation established the UCLA Herb Alpert School of Music. A $20 million gift from Leslie and Susan Gonda through the Leslie and Susan Gonda (Goldschmied) Foundation supported construction of the Ronald Reagan UCLA Medical Center. In addition, funds pledged toward our five-year Ensuring Academic Excellence Initiative reached $250 million, meeting the initiative's goal.

Today, at UCLA, we are continuing to define just what it means to be a world-class public research university in a thriving urban setting in the 21st century. We have before us a remarkable opportunity.

Gene D. Block
Chancellor

AT THE FOREFRONT **OF DISCOVERY**

Every day, UCLA creates limitless possibilities for undergraduates through innovative programs, multidisciplinary experiences, specialized seminars and individual research projects. The core of the student experience is the extraordinary depth and breadth of undergraduate programs in every principal academic field — 130 undergraduate majors in 109 academic departments and 4,000 faculty in the College of Letters and Science; the School of Engineering and Applied Science; the School of Theater, Film, and Television; and the School of Arts and Architecture.

But beyond the traditional individual classroom experience, UCLA has created programs that stretch the boundaries of the intellectual experience for our undergraduates:

Students and faculty work hand-in-hand in the exploration of new knowledge.

- **FRESHMAN CLUSTER: This popular nine-cluster program connects some 2,000 students with distinguished faculty in a year-long multidisciplinary exploration of challenging and timely topics ranging from the global environment to racial issues in America to the evolution of the cosmos.**

- **FIAT LUX: These freshman seminars provide a valuable starting point for students to engage in dynamic analytical thinking with faculty. About 200 Fiat Lux seminars are offered each year, bringing the talents and expertise of the faculty into small classroom settings with students.**

- **UNDERGRADUATE RESEARCH: The opportunity to participate in research is one of the major benefits of attending UCLA, and, each year, thousands of students do. Many of them create important publishable work in close collaboration with senior faculty — often as early as their freshman year. Others participate in research seminars, tutorials and departmental honors programs. Two Undergraduate Research Centers — one for the arts, humanities and social sciences; and one for the sciences, engineering and mathematics — help undergraduates identify faculty mentors.**

"Walking into classes on the first day, being challenged by people who knew stuff you'd never even thought about, who didn't agree with you about anything. And they were just the other students."

—Diane Watson,
Teacher, school psychologist, administrator, state senator, ambassador to Micronesia and, since 2001, member of the U.S. House of Representatives (D-California)

Photography provided by UCLA University Communications.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2008, with selected comparative information for the year ended June 30, 2007. This discussion should be read in conjunction with the financial statements and the accompanying notes.

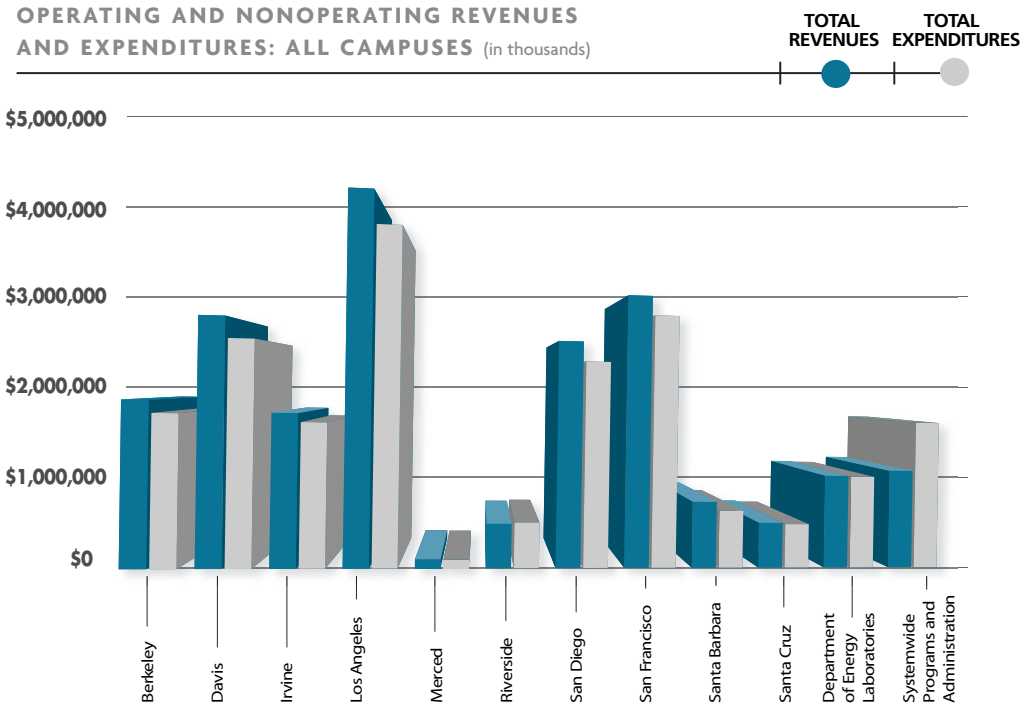
USING THIS ANNUAL REPORT

UCLA is one of 10 campuses within the University of California system. The UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board. The three basic financial statements in this report — the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows — encompass the UCLA campus and its discretely presented component, The UCLA Foundation. However, the MD&A and the Notes to Financial Statements focus only on the campus; information relating to The UCLA Foundation can be found in their separately issued financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California system (the University) is a public, state-supported institution. The University's financial statements for the University, the various campus foundations and the University of California Retirement System are presented as a discrete component of the state's general-purpose financial statements. The University encompasses 10 campuses, which include five medical schools and medical centers, three law schools and the statewide Division of Agricultural and Natural Resources. The University also operates and manages three national laboratories for the U.S. Department of Energy. The audited, consolidated financial statements of the University of California are available at http://www.ucop.edu/ucophome/busfin/reports.html.

The following chart reflects the operating and nonoperating revenues and expenditures of the various campuses and laboratories, along with systemwide programs and administration, for the 2007-08 fiscal year:



THE LOS ANGELES CAMPUS OF THE UNIVERSITY OF CALIFORNIA

UCLA was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget that exceeds $4.1 billion. The financial statements included in this annual report encompass the following:

Campus – The Los Angeles campus spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving more than 38,900 students in the following schools:

COLLEGE OF LETTERS AND SCIENCE
Humanities
Life Sciences
Physical Sciences
Social Sciences
Honors and Undergraduate Programs
UCLA International Institute

PROFESSIONAL SCHOOLS
School of the Arts and Architecture
School of Dentistry
Graduate School of Education & Information Studies
The Henry Samueli School of Engineering and Applied Science
School of Law
UCLA Anderson School of Management
The David Geffen School of Medicine at UCLA
School of Nursing
School of Public Health
School of Public Affairs
School of Theater, Film and Television

The campus' academic departments and interdepartmental programs schedule more than 2,000 courses each quarter for the benefit of our students. Known for academic excellence, many of UCLA's programs are rated among the best in the nation, and some among the best in the world. Few universities offer the range and diversity of academic programs enjoyed by UCLA students.

The campus' mission also includes a strong dedication to research and public service. The UCLA community focuses on environmental issues, economic and social policy concerns, public education reform, healthcare costs and medical advances. More than 5,000 research projects are being conducted on campus at any given time. For 2008, UCLA expenditures for research exceeded $618 million. Statistics from the National Science Foundation's Survey of Federal Science and Engineering Support to Universities, Colleges, and Nonprofit Institutions, published in October 2008 for activities in fiscal year 2006, show that UCLA ranked fifth in the Federal Science and Engineering obligations, with a total of $505.9 million. UCLA Extension offers the public more than 4,500 continuing education courses annually, covering professional and career development, academic enrichment and personal growth.

UCLA employs more than 28,700 faculty, administrators and staff (including casuals and students) and spent $2.5 billion in compensation costs for the fiscal year ended June 30, 2008. UCLA's employees are distinguished for their contributions to education, research and public service. Nobel Prizes have been awarded to five faculty members, in chemistry, physics and medicine (and to four alumni, in economics and chemistry, with one alumnus receiving the Nobel Peace Prize in 1950). UCLA faculty have also received ten National Medals of Science and a Fields Medal, and the Presidential Medal of Freedom has been given to three faculty and three alumni.

UCLA Live (performing arts), the Fowler Museum at UCLA, the UCLA Hammer Museum and the Geffen Playhouse make UCLA the leading arts and cultural center of the West, providing both academic programs and a wide array of public programming.

As of fall 2007, UCLA's on-campus physical plant included 173 buildings, 16 parking structures, seven parking kiosks and four new buildings under construction. Off campus, UCLA owns or manages 139 buildings, owns 10 parking structures and leases 61 or more buildings for various programmatic activities. UCLA's buildings included 13 libraries, housing more than 8 million volumes; a cogeneration power plant; on-campus student housing for more than 10,700 students; off-campus student and faculty apartments; and more, including the UCLA Conference Center in Lake Arrowhead.

UCLA Health System – Comprised of Ronald Reagan UCLA Medical Center, Santa Monica-UCLA Medical Center and Orthopaedic Hospital, Resnick Neuropsychiatric Hospital at UCLA, Mattel Children's Hospital UCLA, and the UCLA Medical Group with its wide-reaching system of primary-care and specialty-care offices throughout the region, the UCLA health system is among the most comprehensive and advanced healthcare systems in the world. The medical center is the primary teaching hospital for the David Geffen School of Medicine at UCLA. It has been named the "Best Hospital in the West" by U.S. News & World Report for 19 consecutive years. The Ronald Reagan UCLA Medical Center officially opened for business in June 2008. This technologically innovative 520-bed hospital was built in response to the damage incurred by the old hospital structure during the 1994 Northridge earthquake. The new hospital, which replaces the 1955 facility, is one of the first hospitals in the state to meet the latest California seismic safety standards. The new hospital, a 10-story structure, encompasses the operations of Ronald Reagan UCLA Medical Center, Stewart and Lynda Resnick Neuropsychiatric Hospital at UCLA and Mattel Children's Hospital UCLA.

ASUCLA – The Associated Students of UCLA (ASUCLA) operates the UCLA store and oversees student activities for the Los Angeles campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974. ASUCLA's financial data, representing total revenue of $70.5 million for the fiscal year ended June 30, 2008, has also been included to reflect the total financial activity of the UCLA campus.

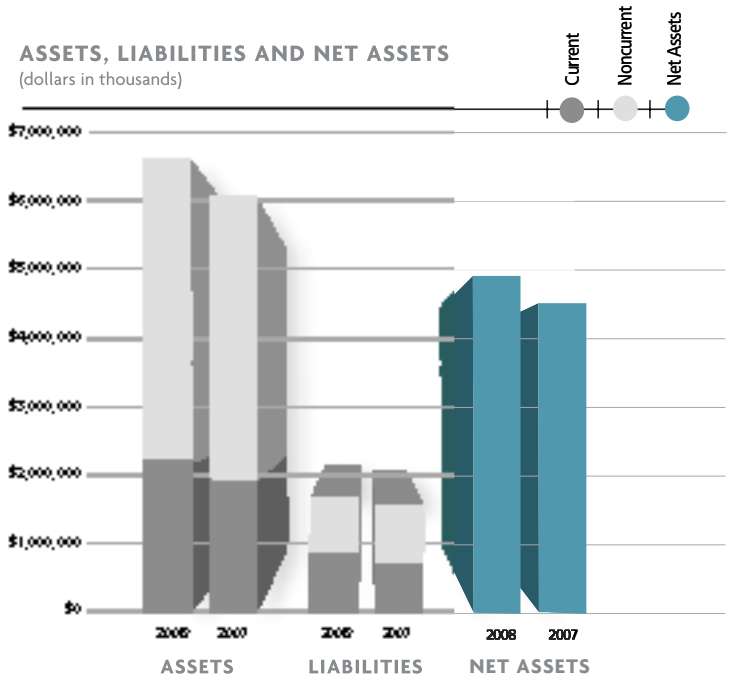
The UCLA Foundation – The foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. Contributions are held by the foundation until such time as funds are needed and are then transferred from the foundation to the campus; at that point, the campus records the receipt of gift revenue. The financial activities of the separately incorporated foundation are not reflected in the campus' records. However, in compliance with Statement No. 39 of the Governmental Accounting Standards Board, which went into effect on July 1, 2003, the foundation's financial activity can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

An Overview – While UCLA's financial information concerning assets, liabilities, revenues and core activity expenditures is discussed in further detail in the subsequent sections of the MD&A, the following table reflects the composition of UCLA for 2008, listing enrollment figures, full-time equivalent employee figures and operating expenses by organization.

(dollars in thousands)	Undergraduates	Graduates, Interns and Residents	Full-Time Equivalent (Includes Students)	Salaries and Wages	Other Expenditures	Total Expenditures
ORGANIZATIONS	FALL ENROLLMENT		EMPLOYEES	OPERATING EXPENSES		
College of Letters and Science	21,289	2,748	3,577	$ 246,241	$ 122,507	$ 368,748
School of the Arts and Architecture	877	395	475	29,897	19,202	49,099
School of Dentistry	-	494	389	32,029	24,689	56,718
School of Education & Information Studies	-	953	464	33,055	17,882	50,937
School of Engineering and Applied Science	2,777	1,386	812	59,015	43,811	102,826
School of Law	-	1,066	234	23,426	17,531	40,957
School of Management	-	1,662	367	38,365	27,087	65,452
School of Medicine	-	2,288	6,820	592,607	365,343	957,950
School of Nursing	148	373	111	8,585	3,907	12,492
School of Public Health	-	668	358	27,438	35,710	63,148
School of Public Affairs	-	477	146	12,752	4,826	17,578
School of Theater, Film and Television	361	388	264	16,518	8,288	24,806
Basic Biomedical Sciences	477	73	202	13,877	9,407	23,284
University Extension	-	-	397	23,901	20,502	44,403
UCLA Health System	-	-	6,894	508,249	577,478	1,085,727
All Others	-	-	7,227	439,902	329,951	769,853
Subtotal Organizations	25,929	12,971	28,737	2,105,857	1,628,121	3,733,978
Depreciation Expense					183,733	183,733
Other Operational Expenditures					27,547	27,547
TOTAL	25,929	12,971	28,737	$ 2,105,857	$ 1,839,401	$ 3,945,258

THE CAMPUS' FINANCIAL POSITION

The statement of net assets presents UCLA's financial position at the end of the fiscal year. It displays the assets and liabilities of the campus, accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2008, the campus' assets were $6.6 billion, liabilities were $1.7 billion and net assets were $4.9 billion, an increase of $401 million from 2007.



The major components of the assets, liabilities and net assets, compared with the prior year, are as follows:

(dollars in thousands)	2008	2007	Change
ASSETS			
Cash and investments	$ 1,642,467	$ 1,405,940	$ 236,527
Accounts receivable, net	484,802	450,825	33,977
Capital assets, net	4,318,939	4,053,189	265,750
Other assets	182,792	188,510	(5,718)
Total assets	$ 6,629,000	$ 6,098,464	$ 530,536
LIABILITIES			
Current liabilities	$ 831,935	$ 705,677	$ 126,258
Long-term debt	707,399	725,879	(18,480)
Other noncurrent liabilities	146,666	125,372	21,294
Total liabilities	$ 1,686,000	$ 1,556,928	$ 129,072
NET ASSETS			
Invested in capital assets, net of related debt	$ 3,588,917	$ 3,310,912	$ 278,005
Restricted:			
Nonexpendable	-	-	-
Expendable	352,141	426,237	(74,096)
Unrestricted	1,001,942	804,387	197,555
TOTAL NET ASSETS	$ 4,943,000	$ 4,541,536	$ 401,464

THE CAMPUS' ASSETS

Long-term investments, the campus' portion of pooled debt and the retirement system, are accounted for on a systemwide basis through the Office of the President and are not reflected in UCLA's stand-alone financial statements. UCLA does participate in a temporary investment pool that is administered by the Office of the President, and the balance in this pool is reflected as part of the campus' assets on UCLA's financial statements, under cash and investments. These funds are primarily invested in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in this short-term investment pool at June 30, 2008, totaled $1.6 billion, an increase of $224.9 million from the previous year, primarily due to the timing of cash needs from one year to the next.

Accounts receivable totaled $484.8 million in 2008, up from $450.8 million in 2007. Accounts receivable include those from the state and federal governments ($97.7 million), those associated with the UCLA Health System that are related to patient care ($234.7 million), those from investment activity and others, including those related to local and private grants and contracts, and student fees ($152.4 million). The $34 million variance from the prior year is primarily attributed to an increase in patient care receivables in the School of Medicine's Practice Plan ($11.3 million), to a special loan to the Geffen Playhouse ($2.6 million) and to increases in local government contract and grant receivables ($6.5 million).

Net capital assets — original cost less accumulated depreciation — increased from $4.05 billion in 2007 to $4.3 billion in 2008. Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, special collections and construction in progress. The original cost of capital assets increased by $363 million to $6.7 billion in 2008, consisting of capital asset additions of $443.6 million, offset by the disposal of $80.8 million of capital assets (mainly equipment) during the year in the ordinary course of business. During 2008, capitalized costs for completed projects included $1.5 billion for new buildings and improvements to existing buildings, $143.7 million for new equipment, $22 million for libraries and collections, and $6.2 million for special collections, including rare books. At the end of 2008, the decrease from 2007 in the cost of projects under construction, net of the costs of those projects completed and reclassified during 2008 to buildings and improvements or equipment, totaled $1.2 billion, reducing construction in progress to $583 million. This reduction includes capitalization of the Ronald Reagan UCLA Medical Center ($901.5 million) and portions of the Santa Monica Replacement Hospital ($97.3 million).

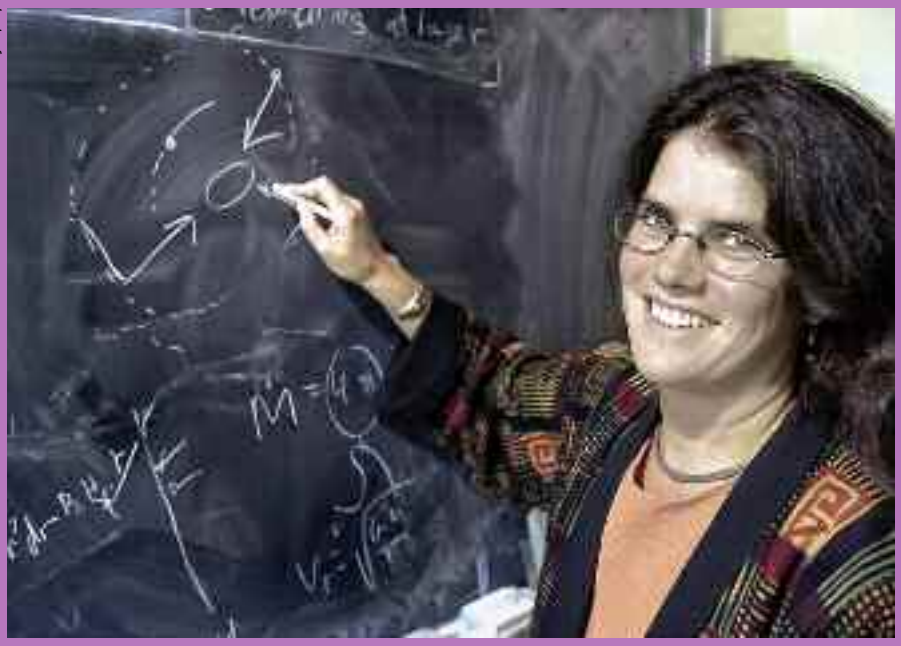
Accumulated depreciation increased from $2.29 billion in 2007 to $2.39 billion in 2008. Depreciation and amortization for the year totaled $183.7 million, whereas depreciation on assets sold or disposed of during the year was $86.6 million. The disposals during 2008 were mainly for equipment that was fully depreciated or had reached the end of its useful life.

Other assets totaling $182.8 million at June 30, 2008 (a decrease of $5.7 million from 2007), included: inventories ($33.1 million), investments held by trustees ($5.8 million), pledges, notes and mortgages receivable ($91.3 million), and other assets ($52.6 million). The decrease is attributed mainly to investments held by trustees (a decrease of $6.1 million) as cash payments were made, reducing prior year unspent proceeds, when expenditures pertaining to the replacement hospitals were presented for reimbursement from State Public Works revenue bonds.

RAISING THE LEVEL OF **WHAT'S POSSIBLE**

Consistently ranked nationally in the top five institutions for research funding, UCLA is buoyed by a long tradition of interdisciplinary collaborations. Projects that cross academic boundaries flourish at UCLA, where faculty from the sciences, engineering and medicine, and a full spectrum of academic departments and professional schools, work together on a single university campus.

UCLA Photography



Reed Hutchinson

Top: 2008 MacArthur Fellow, Andrea Ghez; Left: Wenyuan Shi, professor of Oral Biology, and his research team discovered a formula that disables harmful mouth bacteria using a special lollipop treatment.

- **The cornerstone of UCLA's research enterprise is our illustrious faculty. From Nobels, Pulitzers and National Medals of Science awards to MacArthurs, Fields Medal and the Pritzker Prize — and many others in between — our faculty continue to distinguish themselves and the university every day based on their breakthrough research endeavors. One of the most recent honorees is Andrea Ghez, professor of Physics and Astronomy, who was awarded a "genius" grant from the John D. and Catherine T. MacArthur Foundation.**
- **UCLA's Office of Intellectual Property reports that the university has 1,388 inventions in its portfolio; 415 active U.S. patents; 530 active foreign patents; and 220 active license agreements.**
- **In 2007, UCLA was ranked the second Top American Public Research University in the U.S., by the Center for Measuring University Performance.**

"UCLA research is an enormous, diverse enterprise. Just look at the breadth and depth of new knowledge that flows from here year after year."

— Paul Boyer,
UCLA professor emeritus of Biochemistry; 1997 Nobel Prize for Chemistry

THE CAMPUS' LIABILITIES

Current liabilities of the campus, up $126.2 million from the prior year, consist largely of accounts payable to vendors for goods and services, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt utilized to finance capital assets. The accounts payable for the campus consist of amounts due to vendors for goods and services received for general operation of the campus and UCLA health system, and for capital assets. Overall accounts payable showed a slight decline to $292.1 million in 2008 from $294.8 million in 2007. Accrued salaries and benefits showed an increase of $95 million during 2008, directly attributed to the timing of payroll distribution at June 30. Deferred revenues for 2008 totaled $198 million, up from $185.5 million in 2007, mainly attributed to up-front payment and fixed price agreements for private grants and contracts where expenditures had not yet occurred, and for summer session fees collected in June and deferred to July.

Long-term debt, used for capital expenditures, is financed by a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing. The campus' portion of pooled debt is accounted for on a University-wide basis. Other debt used to finance capital assets, and accounted for locally as noncurrent long-term debt, fell from $725.9 million at the end of 2007 to $707.4 million at the end of 2008, a decrease of $18.5 million as obligations are paid down.

Other noncurrent liabilities increased by $21.3 million in 2008, attributed in part to a $9.6 million increase in accrued vacation leave and a reclassification of $10.9 million in federally refundable loans previously recorded in net fund balances.

THE CAMPUS' NET ASSETS

Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased by $401.4 million, bringing the year-end total to $4.9 billion. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets — net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets — grew from $3.3 million in 2007 to $3.5 million in 2008.

The campus reflects a zero balance in restricted nonexpendable net assets, as endowments and charitable remainder trusts are accounted for on a systemwide basis and are excluded from UCLA's financial statements.

Restricted expendable net assets, which totaled $352.1 million in 2008, down from $426.2 million in 2007, are subjected to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee-held investments; or other third-party receipts.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated internally and are allocated for academic and research initiatives or programs, or for capital purposes. As of June 30, 2008, unrestricted net assets reached $1 billion, an increase of $197.6 million from the previous year.

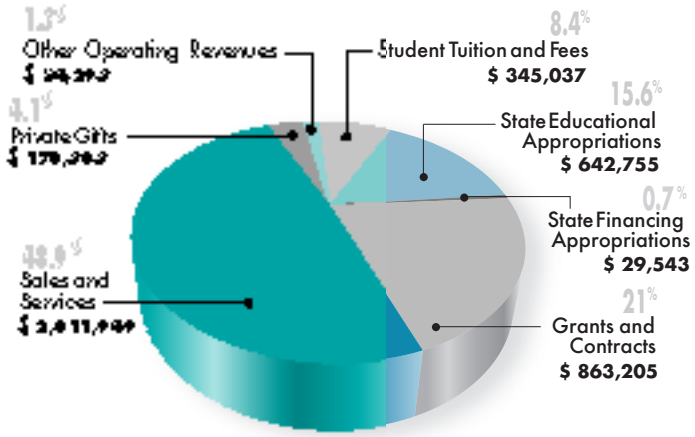
THE CAMPUS' RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus, including state educational appropriations, private gifts and investment income, are mandated to be recorded as nonoperating revenues.

The following chart displays the categories of both operating and nonoperating revenues that support core activities, as of June 30, 2008:

REVENUES SUPPORTING CORE ACTIVITIES

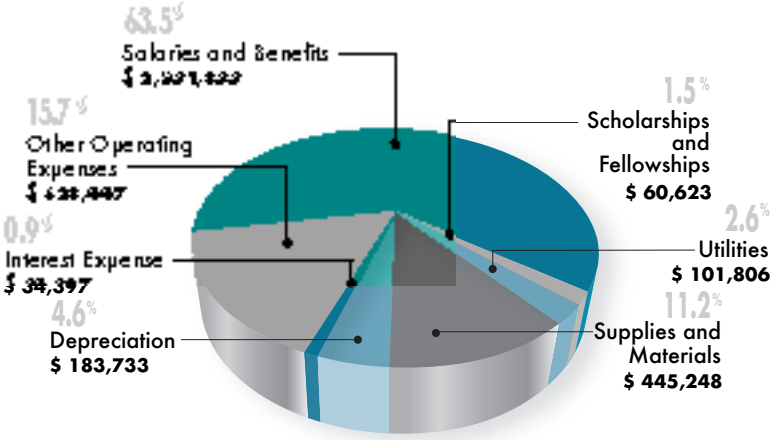
(dollars in thousands)



The following chart displays the portion of operating and nonoperating expenses related to core activities of the campus, as of June 30, 2008:

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

(dollars in thousands)



Below is a summarized comparison of the operating results for 2008 and 2007, arranged in a format that matches the revenue supporting the core activities of UCLA with the expenses associated with core activities:

	YEAR ENDED JUNE 30, 2008			YEAR ENDED JUNE 30, 2007			
(dollars in thousands)	Operating	Nonoperating	Total	Operating	Nonoperating	Total	Change
REVENUES							
Student tuition and fees, net	$ 345,037	$ -	$ 345,037	$ 310,724	$ -	$ 310,724	$ 34,313
State educational appropriations	-	642,755	642,755	-	603,571	603,571	39,184
State financing appropriations	-	29,543	29,543	-	26,842	26,842	2,701
Grants and contracts	863,205	-	863,205	832,915	-	832,915	30,290
Sales and services, net	2,011,949	-	2,011,949	1,845,892	-	1,845,892	166,057
Private gifts	-	170,303	170,303	-	181,153	181,153	(10,850)
Other revenues	53,400	893	54,293	47,637	2,659	50,296	3,997
Revenues supporting core activities	3,273,591	843,494	4,117,085	3,037,168	814,225	3,851,393	265,692
EXPENSES							
Salaries and benefits	2,531,833	-	2,531,833	2,328,834	-	2,328,834	202,999
Scholarships and fellowships	60,623	-	60,623	52,322	-	52,322	8,301
Utilities	101,806	-	101,806	91,076	-	91,076	10,730
Supplies and materials	445,248	-	445,248	410,812	-	410,812	34,436
Depreciation	183,733	-	183,733	168,363	-	168,363	15,370
Interest expense	-	34,397	34,397	-	28,013	28,013	6,384
Other expenses	622,015	6,432	628,447	593,521	-	593,521	34,926
Expenses associated with core activities	3,945,258	40,829	3,986,087	3,644,928	28,013	3,672,941	313,146
Income (loss) from core activities	(671,667)	802,665	130,998	(607,760)	786,212	178,452	(47,454)
Transfers to (from) core activities	-	45,519	45,519	-	(68,552)	(68,552)	114,071
Net income (loss) from core activities	$ (671,667)	$ 848,184	$ 176,517	$ (607,760)	$ 717,660	$ 109,900	$ 66,617
OTHER NONOPERATING ACTIVITIES							
Net depreciation in fair value of investments			-			-	-
Gain (loss) on disposal of capital assets, net of proceeds			5,826			12,043	(6,217)
Income (loss) before other changes in net assets			182,343			121,943	60,400
OTHER CHANGES IN NET ASSETS							
State capital appropriations			40,003			14,313	25,690
Capital gifts and grants			99,855			127,195	(27,340)
Transfers to (from) capital accounts			79,263			(12,739)	92,002
Increase in net assets			401,464			250,712	150,752
NET ASSETS							
Beginning of year			4,541,536			4,290,824	250,712
Cumulative effect of a change in accounting principle*			-			-	-
End of year			$ 4,943,000			$ 4,541,536	$ 401,464

**One-time change in accounting principal for booking of voluntary and involuntary termination pay (GASB 47)*

REVENUES ASSOCIATED WITH CORE ACTIVITIES

Revenues to support UCLA's core activities, including those classified as nonoperating revenues, grew from $3.9 billion in 2007 to $4.1 billion in 2008, an increase of $265.7 million. The campus has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the UCLA health system, educational activities and auxiliary enterprises such as student housing, food services operations and parking.

Categories of revenues, as well as activity trends, are described below:

Revenues (dollars in thousands)	2008	Percent of Total	2007	Percent of Total	Change	Change Over Prior Year
Student tuition and fees, net	$ 345,037	8.38%	$ 310,724	8.07%	$ 34,313	11.0%
State appropriations	672,298	16.33%	630,413	16.37%	41,885	6.6%
Grants and contracts	863,205	20.97%	832,915	21.63%	30,290	3.6%
Sales and services, net	2,011,949	48.87%	1,845,892	47.93%	166,057	9.0%
Private gifts	170,303	4.14%	181,153	4.70%	(10,850)	-6.0%
Other revenues, net	54,293	1.31%	50,296	1.31%	3,997	7.9%
TOTAL	$ 4,117,085	100.00%	$ 3,851,393	100.00%	$ 265,692	6.9%

Student Tuition and Fees, net (dollars in thousands)	2008	2007	Change	Change Over Prior Year
Student tuition and fees	$ 462,738	$ 422,989	$ 39,749	9.4%
Scholarship allowance	(117,701)	(112,265)	(5,436)	4.8%
TOTAL	$ 345,037	$ 310,724	$ 34,313	11.0%

Student Tuition and Fees revenue, net of scholarship allowances, grew by $34.3 million, from $310.7 million in 2007 to $345 million in 2008, an 11% increase. Overall student population showed only a minor increase on a year-over- year basis, with 38,896 enrolled students in the Fall of 2007 compared to 38,218 enrolled students in the Fall of 2006. The variance is primarily attributed to an 8% increase in student fees for both undergraduate and graduate residents ($15.9M), as well as a 5% increase in non-resident undergraduate fees ($5.6M). Other significant increases come from differential fees for the Professional Schools ($5.5M), Masters/Executive fees ($4.6M) and Summer Session fees ($3.2M) with the remaining increases coming from registration fees and other miscellaneous fee increases. All fees were offset by an increase in scholarship allowance of $5.4 million.

State Appropriations (dollars in thousands)	2008	2007	Change	Change Over Prior Year
State educational appropriations	$ 642,755	$ 603,571	$ 39,184	6.5%
State financing appropriations	29,543	26,842	2,701	10.1%
TOTAL	$ 672,298	$ 630,413	$ 41,885	6.6%

State Appropriations consists of two components: educational and financing. Educational appropriations from the State of California increased by $39.2 million to $642.7 million in 2008, a rise of 6.5%. This was the direct result of the state budget increase approved for the University for 2007–08.

State financing appropriations are directly related to the required rental payments under lease-purchase agreements with the State of California, which increased by $2.7 million for 2008.

Grants and Contracts (dollars in thousands)	2008	2007	Change	Change Over Prior Year
Federal	$ 601,428	$ 612,430	$ (11,002)	-1.8%
State	60,554	43,961	16,593	37.7%
Private	162,179	140,001	22,178	15.8%
Local	39,044	36,523	2,521	6.9%
TOTAL	$ 863,205	$ 832,915	$ 30,290	3.6%

Grants and Contracts revenue from federal, state, private and local sources increased by $30 million during 2008 to $863 million. Federal grant and contract revenue, including facilities and administration cost recovery of $130.9 million, direct expenditures of $456 million and advanced payments of $14.5 million, totaled $601.4 million for 2008, $11 million less than 2007. This revenue represents support from a variety of agencies: the Department of Health and Human Services, $410 million; the National Science Foundation, $65 million; the Department of Education, $46 million; the Department of Veterans Affairs, $17 million; the Department of Energy, $18 million; and other federal agencies, $45 million. Other changes in contracts and grants are as follows: State contracts increased from $44 million in 2007 to $60.5 million in 2008, Private contract and grant funds increased by $22.1 million to $162 million, and local contracts and grants increased by $2.5 million to $39 million.

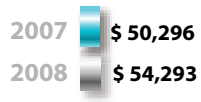
Sales and Services (dollars in thousands)	2008	2007	Change	Change Over Prior Year
UCLA Health System	$ 1,163,429	$ 1,065,018	$ 98,411	9.2%
Educational activities	538,104	485,346	52,758	10.9%
Auxiliary enterprises, net	310,416	295,528	14,888	5.0%
TOTAL	$ 2,011,949	$ 1,845,892	$ 166,057	9.0%

Sales and Services revenue represents revenue from UCLA health systems, educational activities and auxiliary enterprises, net of scholarship allowance. This revenue increased to $2 billion in 2008 from $1.85 billion in 2007, a total increase of $166 million. The UCLA Health System's revenue growth of $98.4 million over the prior year to $1.2 billion was primarily due to a combination of rate increases and an increase in patient activity. Sales from educational activities grew by $53 million to a total of $538 million. The increase is primarily attributed to a $48.0 million rise in compensation plan activities due to rate and volume increases in patient care within the David Geffen School of Medicine at UCLA and the UCLA School of Dentistry. Sales from auxiliary enterprises — including on-campus student housing, off-campus housing, intercollegiate athletics, ASUCLA, and parking services — showed an overall 5% increase, from $296 million in 2007 to $310 million in 2008.

Private Gifts (dollars in thousands)	2008	2007	Change	Change Over Prior Year
Gifts	$ 55,801	$ 75,526	$ (19,725)	-26.1%
Transfers from The UCLA Foundation	114,502	105,627	8,875	8.4%
TOTAL	$ 170,303	$ 181,153	$ (10,850)	-6.0%

Private Gift revenue can come directly from the donor or can be held by The UCLA Foundation until needed. These funds generally are restricted to uses designated by the donor. In 2008, revenues totaled $170 million, representing a $19.7 million, or 26.1%, decrease from 2007, due in large part to a $20 million one-time pledge received in 2007 that was not repeated in 2008. Approximately 67% of the 2008 private gifts revenue was attributed to transfers by campus departments from The UCLA Foundation for various campus needs.

Other Revenues, net (dollars in thousands)	2008	2007	Change	Change Over Prior Year
Service Enterprises	$ 2,705	$ 2,641	$ 64	2.4%
Other self-supporting units	50,695	44,996	5,699	12.7%
Total other operating revenues	53,400	47,637	5,763	12.1%
Other nonoperating revenues	893	2,659	(1,766)	-66.4%
TOTAL	$ 54,293	$ 50,296	$ 3,997	7.9%



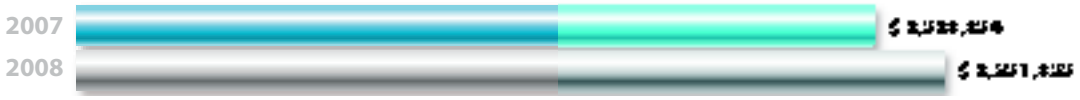
Other Revenues, net of scholarship and other allowances, along with nonoperating revenues, totaled $54.3 million for 2008. The majority, $53.4 million, attributed to operating revenue, comes from a variety of self-supporting units, such as the Arthur Ashe Student Health and Wellness Center, UCLA Live, the Department of Cultural and Recreational Affairs, and parking fines and forfeitures. Nonoperating revenues were just under $1 million for 2008.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

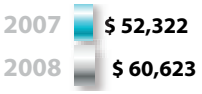
UCLA's expenses associated with core activities for 2008, including those classified as nonoperating expenses, totaled just under $4 billion, up $313 million from $3.7 billion in 2007. Almost two-thirds, 63.5%, of UCLA's core expenses are related to salaries and benefits of academic and administrative staff working on behalf of the University. Other expenses are related to goods and services used for operation of the core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

Categories of expenses, as well as activity trends, are described below:

Expenses (dollars in thousands)	2008	Percent of Total	2007	Percent of Total	Change	Change Over Prior Year
Salaries and benefits	$ 2,531,833	63.52%	$ 2,328,834	63.41%	$ 202,999	8.7%
Scholarships and fellowships	60,623	1.52%	52,322	1.42%	8,301	15.9%
Utilities	101,806	2.55%	91,076	2.48%	10,730	11.8%
Supplies and materials	445,248	11.17%	410,812	11.18%	34,436	8.4%
Depreciation	183,733	4.61%	168,363	4.58%	15,370	9.1%
Interest expense	34,397	0.86%	28,013	0.76%	6,384	22.8%
Other expenses, net	628,447	15.77%	593,521	16.16%	34,926	5.9%
TOTAL	$ 3,986,087	100.00%	$ 3,672,941	100.00%	$ 313,146	8.5%



Salaries and Benefits reflected an 8.7% increase over the prior year, from $2.3 billion in 2007 to $2.5 billion in 2008 ($2.1 billion in salaries and wages and $426 million in benefits) for just over 39,000 employees filling approximately 28,700 full-time equivalent positions. The increase is attributed to a 3% rise in the employee count, along with an increase in salary costs based on the governor's budget which, combined with other University revenues, provided a 5% pool for employee-compensation increases, including merit-based and equity-based salary increases, health and welfare-benefit cost increases and related cost increases.

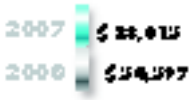


Scholarships and Fellowships, payments of financial aid made directly to students and reported as an operating expense, totaled $60.6 million in 2008, a 15.9% increase over 2007. In addition, scholarship allowances (financial aid fee waivers by the campus and third-party payments to the University on behalf of students) increased in 2008 by 4% to $149.7 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from $196.2 million in 2007 to $210.3 million in 2008, an increase of $14.1 million, or 7.19%.

Utilities costs — consisting of natural gas, electricity, water and sewer, and utilities services — showed an 11.8% increase from the prior year to $101.8 million. This increase was attributed mainly to a rise in various utility costs.

Supplies and Materials increased by $34.4 million over the prior year to $445.2 million. This 8.4% increase is attributed to the normal course of doing business to meet campus needs. The major portion of these expenses can be attributed to inventorial equipment, medical supplies, lab supplies, food, furniture and fixtures, computer software and software license fees.

Depreciation and Amortization expenses increased $15.3 million from 2007 to $183.7 million in 2008. The 9% increase is the net effect of the depreciation related to acquisition, and disposal of equipment, library materials and software over $10 million for the campus and the hospitals.



Interest Expense on scheduled payments for capital leases and revenue bonds, reported as a nonoperating expense, increased by $6.4 million in 2008 to $34.3 million, due primarily to first full year of bond interest payments (Series 2007A) for the Medical Center.

Other Expenses Associated with Core Activities rose by $34.9 million to $628.4 million in 2008, an increase of 5.9% from 2007. The major portion of these expenses is attributed to consulting and professional service charges, as well as patient care expenses, and repairs, alterations and maintenance costs.

OTHER NONOPERATING ACTIVITIES

UCLA's nonoperating activities that are generally non-cash transactions, and therefore not available to be used to support operating expenses, include the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Since the majority of investment activity is recorded at a systemwide level, the appreciation and depreciation of the fair market value investments is not significant from year to year.

The $5.8 million gain on disposal of capital assets for 2008 included an $8.2 million gain on the write-off of accumulated depreciation for the disposal of computer software, offset by the loss of $3 million on disposal of equipment with an $80 million acquisition value less the accumulated deprecation of $77 million. Useful lives of equipment are assigned at the time of acquisition based on an established useful life table; equipment is fully depreciated when the accumulated depreciation equals the acquisition value. Equipment is written off at the time of disposal.

OTHER CHANGES IN NET ASSETS

Similar to the other nonoperating activities discussed above, other changes in net assets are also not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Transfers consist of two groups, those from core activities that support campus operations and transfers specific to capital assets.

UCLA's existing facilities continue to need renewal, modernization and seismic correction, for which funding comes from a variety of sources each year. For 2008, capital appropriations from the state increased by $25.7 million, from $14.3 million in 2007 to $40 million, due to the receipt of funding for the new Life Science Building. Capital appropriations from gifts and grants decreased by $27.3 million, from $127.2 million in 2007 to $99.9 million in 2008. The decrease relates to $64.8 million in gifts and grants received in 2007 and not repeated in 2008 for the Westwood Replacement Hospital, partially offset by a $38.4 million 2008 gift from the Packard Institute for land and buildings for the storage of film archives.

Transfers to core activities ($45.5 million), plus transfers to capital accounts ($79.3 million), totaled $124.8 million for 2008, an increase of $206 million from 2007. The majority of the activity can be associated with indirect cost recovery, intercampus transfers, unexpended plant funds and retirement of indebtedness.

The indirect cost recovery for facilities and the administrative costs of contract and grant activity totaled $161 million in 2008, an increase of $2.7 million over the prior year. A majority of these funds ($157 million) are transferred to the Office of the President as part of the closing processes and then reallocated at a designated rate to the campus in the new year. The University has an agreement with the state regarding the disbursal of federal reimbursement. Approximately 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity, and this is the source of the University's off-the-top overhead funds. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University general funds and is used, along with state general funds, to help fund the University's budget; the remaining 45% is the source of the University Opportunity Fund. By prior agreements, indirect costs associated with Clinical Trials ($2.8 million for 2008), University Extension ($80,000 for 2008) and the California Institute for Regenerative Medicine ($1 million for 2008) are either retained or returned to the campus at 100%.

Intercampus transfers totaled $276.6 million for 2008, an increase of $29.3 million from 2007. This includes the allotment of indirect cost funds from the prior year's recovery, transfers of funding between campuses for related projects and short-term investment income, and a $9.8 million transfer through the reserve account to UCLA for supplemental health benefits.

Unexpended plant fund transfers totaled $145.6 million for 2008, an increase of $89.4 million from 2007. The majority of the increase for 2008 was applicable to the timing of the transfers from the Office of the President for funding plant projects.

Retirement of indebtedness totaled $66.3 million for 2008; this includes principal ($30.8 million) and interest payments ($50 million) transferred to the Office of the President for debt service related to financing and amortization schedules, less funds transferred from the Office of the President ($13 million), mainly for funding of the UC Housing System major maintenance expenses, overall a decrease of $2.5 million from 2007.

THE CAMPUS' CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash. UCLA's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

A summary comparison of cash flows for 2008 and 2007 is as follows:

Cash Flow ((dollars in thousands)	**2008**	**2007**	**Change**
Cash received from operations	$ 3,284,659	$ 3,009,120	$ 275,539
Cash payments for operations	(3,669,183)	(3,424,874)	(244,309)
Net cash used by operating activities	(384,524)	(415,754)	31,230
Net cash provided by noncapital financing activities	822,657	771,399	51,258
Net cash used by capital and related financing activities	(326,399)	(26,988)	(299,411)
Net cash provided by investing activities	-	-	-
Cumulative effect of change in accounting principles	-	-	-
Intercampus and transfer activities	124,782	(81,291)	206,073
Net (decrease) increase in cash	236,516	247,366	(10,850)
Cash, beginning of year	1,405,813	1,158,447	247,366
Cash, end of year	$ 1,642,329	$ 1,405,813	$ 236,516

UCLA's cash in demand deposit accounts increased by $236.5 million, from $1.4 billion in 2007 to $1.64 billion in 2008. More than $384 million was used for operating activities, offset by $822.6 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

Cash of $326 million was used for capital and related financing activities, primarily for purchases of capital assets, refinancing and prepayment of outstanding debt and principal and interest payments, partially offset by sources that include state and federal (FEMA) capital appropriations, proceeds from debt issuance, grants and gifts for capital purposes, and new external financing.

LOOKING FORWARD

The campus', and the University's, quality is a hallmark for the State of California and the nation. The excellence of UCLA's programs attracts the best students; leverages hundreds of millions of dollars in state, federal and private funding; and promotes the discovery of new knowledge that fuels economic growth.

One of the University's major financial strengths is its diverse sources of revenue — from the State of California, student fees, federal grants and contracts, UCLA health systems, private gifts and self-supporting enterprises. The different sources of revenue are especially important at this time, as the state-funded portion of the operating budget has experienced considerable downturn, leading to non-instructional program cuts, student fee increases and deferred spending. The University will continue making the case for strong long-term state investment in the education and research activities, which are key to economic recovery and critical to California.

The initial 2008-09 state budget for the University of California system remains essentially flat in relation to last year, with mid-year cuts a possibility. This has the University looking at a bare-bones budget with strict attention to protecting the student instructional program and student academic preparation programs as much as possible, and to curtail hiring, travel and consulting services; reduce the use of leased facilities; evaluate business practices to make them more efficient; eliminate non-essential activities; and encourage employees to take advantage of the Staff and Academic Reduction in Time Program, effective now through June 30, 2010.

Not included in the spending plan for 2008-09 are several items identified by the Regents as high priorities but which are being deferred in order to avoid making significantly higher cuts to existing programs. These include general salary increases for faculty and staff, additional funding for the second year of a four-year faculty salary-improvement plan, and funding to continue improving student-faculty ratios. These items continue to be high priorities for the University and are under consideration for inclusion in its 2009-10 budget request.

The state budget does not provide funding increases for student enrollment growth or inflation-based cost increases, which amounts to an estimated 4.9% reduction in state general funds compared to the previous year. Still, the University kept its promise to offer a place to all eligible undergraduate applicants this fall, and total enrollment is expected to increase. In anticipation of this major funding loss, the UC Regents in May 2008 approved a 7.4% student fee increase for the 2008-09 year, earmarking 33% of the revenue for financial aid in order to help preserve affordability for lower-income students.

UCLA continues to advance in cutting-edge research programs across and between a broad spectrum of disciplines and to foster research and technology development that contributes to regional, national and international economic growth and educational and social advancement. The campus is highly competitive in terms of attracting federal grant and contract revenue, and continues working with government and other stakeholders on developing and strengthening UCLA's research enterprise, as well as attracting and retaining top faculty, researchers and graduate students.

The UCLA health system has demonstrated very positive financial results, although it continues to face financial challenges in a price-sensitive managed-care environment, along with the added costs and responsibilities related to functioning as an academic institution. The demand for healthcare services and the cost of providing them are increasing significantly, while revenues that support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, UCLA's health system also faces additional costs associated with new technologies, biomedical research, the education and training of healthcare professionals, and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance plans do not recognize the added cost of teaching in their payments to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Recent changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake.

ACADEMICS IN ACTION

Between time devoted to classes, part-time jobs and commutes, it's hard to imagine how students fit public service into their demanding schedules. But they do — and in impressive numbers — working beyond the borders of UCLA and developing innovative ways to increase opportunities for and empower disadvantaged groups, not just in Los Angeles but worldwide.

UCLA Photography

UCLA students, faculty and staff engage in more than 200 community service learning programs. Bottom left: Marguerita Lightfoot, associate research psychologist, Winner of Ann C. Rosenfield Distinguished Community Partnership Prize.

- **The Center for Community Learning is the undergraduate curricular arm of the chancellor's "UCLA in LA" initiative, which works with faculty to offer a wide variety of community learning courses to students. The university's minor in Civic Engagement prepares students to become educated citizens and community leaders.**

- **More than one-third of UCLA undergraduates participate in community service learning programs each year.**

- **UCLA's Center for Community Partnerships supports off-campus teaching, training and research collaboration that improve the quality of life for our citizenry.**

"We want every UCLA undergraduate to have the opportunity to enroll in courses that include meaningful work in the communities of Los Angeles — whether that work is direct service or research."

— Judith L. Smith,
Dean and Vice Provost for Undergraduate Education

The continuing financial success of the UCLA health system is dependent on dedicated and sustained financial support for medical education and care for the poor. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

UCLA health system is home to some of the most technologically advanced hospitals in the world, providing an extraordinary opportunity for the advancement of medicine and the improvement of patient care. The Ronald Reagan UCLA Medical Center, a nonprofit, self-supporting hospital, is at the cutting edge of biomedical technology. The Center's doctors and scientists are leaders in performing pioneering work across an astounding range of disciplines — from organ transplantation and cardiac surgery to neurosurgery and cancer treatment — and bring the latest discoveries to virtually every field of medicine. It is the teaching hospital for the UCLA David Geffen School of Medicine. It is also one of the first total-replacement hospitals to be built in accordance with California's latest seismic safety requirements.

Multiphase construction continues with the Santa Monica/Orthopaedic Replacement Hospital. The new state-of-the-art inpatient facility, which is an alliance between Santa Monica-UCLA Medical Center and Orthopaedic Hospital, is being constructed to include 120 acute care beds, with final site work expected to be completed by 2010.

UCLA and The UCLA Foundation's remarkable achievement in recent years in obtaining private support is a testament to UCLA's distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which the campus and the University are held. The level of private support underscores the continued confidence among donors in the quality of UCLA's programs and the importance of its mission.

UCLA continues to assess its long-term capital requirements, as an array of many categories of facilities is needed to meet its education, research and public service goals. Support for the campus' capital program will continue to be provided from a combination of sources, including the State of California, external financing, gifts and other sources. There also are plans for additional capital projects that are not considered to be state-supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

Capital improvements for student on-campus housing will move forward, as the UC Regents' Committee on Grounds and Buildings recommended that UCLA proceed with obtaining external financing, totaling $371 million, for the first phase of a new undergraduate student housing project that will provide approximately 1,350 to 1,500 beds. The project will be the first of a two-phase plan to provide a total of 2,500 additional beds in the northwest campus for undergraduates over the next decade. Construction of this first-phase project is expected to be completed by 2012-13 at a cost of approximately $325 million to $375 million.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written statements (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCLA expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

THE DIFFERENCE **MAKERS**

Scholars who come to UCLA, and the donors who support them, each bring a gift. The scholars: a special ability, a natural talent, an aptitude, a genius. The donors: something given voluntarily, a benefaction, an endowment. And it is together, through this exchange of gifts, that they move the horizon, redefine possibility and ensure real-world progress.

Clockwise from top left: Walter and Shirley Wang, Jim Easton, Felicia Henderson, and The Honorable Warren Furutani.

- **The nation's first program and endowed faculty chair focusing on U.S.-China relations and Chinese American studies will be established at the UCLA Asian American Studies Center, thanks to a $1 million pledge from philanthropist Walter Wang and his wife, Shirley Wang '90. The Wangs are "very passionate about fostering an accurate understanding of the role Chinese Americans have played in our nation's history," says Walter. They hope the chair and the innovative U.S.-China Media and Communications Resource Program will help to accomplish that goal.**

- **In the UCLA Anderson School of Management, the new Jim Easton Global Connection Classroom will feature 21st-century recording, webcasting and video conferencing capabilities that will benefit students and faculty alike. Made possible by a $2 million gift from sports marketer and longtime UCLA supporter James L. Easton, the advanced, technology-enabled classroom will facilitate business learning by connecting with students, partners and executives around the globe.**

- **"UCLA film school helped me re-create myself," says writer and producer Felicia Henderson '84, Ph.D. '09. "My hope is that these scholarships will help others do the same." In an effort to help aspiring undergraduate writers become professional storytellers like herself, Henderson has created the Felicia D. Henderson Screenwriting Award at the UCLA School of Theater, Film and Television. A lecturer at TFT, Henderson studies race and gender in the comedy writer's room.**

"By graduation, no one can tell the transfer students from the four-year folks — the financial aid students from the privileged. But everyone knows who the leaders are. UCLA has a unique institutional knack for discovering, nourishing and rewarding exceptional individual performance."

— Warren Furutani, *California Assemblyman, District 55*

During 2007-08, UCLA received $481 million in new gifts and pledges. This marks a 29 percent increase over the previous year's total of $373 million and the ninth consecutive year in which UCLA's gift total has surpassed $250 million.

UCLA's Ensuring Academic Excellence Initiative generated $65 million during 2007-08, bringing the initiative's total to nearly $307 million. Launched in June 2004, the initiative, which ends in 2009, was designed to help attract and retain top students and faculty, a campus-wide priority.

Included in the 2007-08 total was a gift of $1 million from UCLA Medical Center board member and noted philanthropist Ronald A. Katz and his wife, Maddie, to launch Operation Mend. Operation Mend is a one-of-a-kind partnership uniting wounded soldiers and marines from Brooke Army Medical Center in San Antonio, Texas, with UCLA doctors in order to treat U.S. military personnel wounded during service in Iraq and Afghanistan. Through the Katz Family Foundation, the Katzes are funding all non-covered costs, including travel and housing, for the patients and their families during treatment.

"I knew of the spectacular, world-class capabilities of UCLA's plastic surgery team," says Ron, "and I thought, if we could only avail these kids of that kind of superb capability, it would be a change in their lives."

Additionally, UCLA received a $30 million endowment gift made possible through the generosity of the renowned performer, producer and philanthropist Herb Alpert and his wife, Lani Hall Alpert, to create and name the UCLA Herb Alpert School of Music. This gift from the Herb Alpert Foundation is the largest ever made to the arts in the University of California system and is the single largest individual gift to music higher education in the western United States.

Support for the UCLA School of Law included $5 million from Dan A. Emmett and his family to establish the nation's first law school center focused on climate change and the environment. The Emmett gift, combined with a matching gift challenge, will provide $10 million to advance the study, research and teaching of knowledge related to climate change and the environment.

In the interest of furthering understanding of an often-overlooked group, Andrew Viterbi, his wife, Erna, and their three children established a $1.4 million endowment to create a program in Mediterranean Jewish studies through UCLA's Center for Jewish Studies. According to David N. Myers, UCLA professor of history and director of the center, "The Viterbi family's remarkable generosity will enable us to explore in rich detail the wide-ranging social, religious and economic ties that Jews developed in the Mediterranean Basin from antiquity to the present."

Private philanthropy continues to secure UCLA's position as a leader in American higher education by supporting pioneering research, providing student and faculty support, enhancing interdisciplinary programs and enabling capital improvements.

THE BETTER WAY

The best doctors. The best hospitals. The best technology. The UCLA Health System, including four hospitals, six community offices and 75 outpatient clinics, is among the most comprehensive healthcare providers in the country. Here, healthcare is a partnership among patients, their families and our team of compassionate healthcare professionals.

UCLA HEALTH SYSTEM

UCLA HEALTH SYSTEM

REED HUTCHINSON

State of the art healing includes world-class newborn, pediatrics and emergency room services.

BENNY CHAN/Fotoworks

UCLA HEALTH SYSTEM

UCLA HEALTH SYSTEM

"The opening of the Ronald Reagan UCLA Medical Center is a significant event for Los Angeles, California and the world. Inside this new facility, UCLA's healthcare professionals will build upon the university hospital's traditions of unparalleled patient care and the education of tomorrow's doctors, and through research will find cures and better treatments for the devastating medical conditions that afflict mankind."

—Dr. Gerald S. Levey,

vice chancellor of medical sciences and dean of the David Geffen School of Medicine at UCLA

TO GET BETTER

For more than 50 years, UCLA has been a leader in patient care, medical research and teaching. And now, with the opening of the Ronald Reagan UCLA Medical Center, we offer the nation's most technologically advanced care in a healing environment that is supportive, respectful and humane. Designed with the concept that "good architecture is an integral part of the healing process" by world-renowned architect I.M. Pei and his son C.C. Pei, the complex encompasses three hospitals — Ronald Reagan UCLA Medical Center, Mattel Children's Hospital UCLA and Stewart and Lynda Resnick Neuropsychiatric Hospital at UCLA.

Our excellence is recognized internationally — hundreds of patients from around the world come to us each year — and UCLA is acclaimed nationally. *U.S. News & World Report* ranks us among the top three healthcare institutions in the country, and we have been named the best hospital in the western United States for 19 consecutive years.

BENNY CHAN/Fotoworks

- **More than 200 UCLA physicians are listed in the prestigious "Best Doctors in America" guide.**
- **UCLA Health System clinics log more than 1 million patient visits each year, and UCLA hospitals more than 80,000.**
- **UCLA Medical Group is rated by the Integrated Healthcare Association (IHA) among California's top-performing physician organizations.**
- **More than 70 percent of UCLA medical students and some 200 faculty participate in community health programs each year.**

FINANCIAL STATEMENTS

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2008.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* the financial activity of the legally separate, tax-exempt UCLA Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

Respectfully submitted,

Susan K. Abeles
Associate Vice Chancellor/Controller
Corporate Financial Services

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF NET ASSETS

For Fiscal Year Ended June 30, 2008, with comparative totals for 2007

(dollars in thousands)	CAMPUS* 2008	CAMPUS* 2007	FOUNDATION 2008	FOUNDATION 2007
ASSETS				
Current assets				
Cash	$ 35,442	$ 23,852	$ 720	$ 731
Short-term investments	1,606,887	1,381,961	152,324	150,813
Investment of cash collateral	-	-	65,892	47,600
Investments held by trustees	138	127	-	-
Accounts receivable, net	484,802	450,825	9,464	4,053
Pledges receivable, net	6,105	7,747	41,593	37,342
Current portion of notes and mortgages receivable, net	5,832	5,921	32	42
Inventories	33,116	30,006	-	-
Other current assets	36,885	32,983	16	1,034
Total current assets	2,209,207	1,933,422	270,041	241,615
Noncurrent assets				
Investments	-	-	1,152,048	1,051,765
Investments held by trustees	5,782	11,928	-	-
Pledges receivable	15,216	19,120	138,222	152,992
Notes and mortgages receivable, net	64,162	62,658	502	551
Land, buildings, equipment, libraries and collections, net	4,318,939	4,053,189	27,759	23,484
Other noncurrent assets	15,694	18,147	8,647	8,965
Total noncurrent assets	4,419,793	4,165,042	1,327,178	1,237,757
Total assets	$ 6,629,000	$ 6,098,464	$ 1,597,219	$ 1,479,372
LIABILITIES				
Current Liabilities				
Accounts payable	$ 292,125	$ 294,760	$ 2,056	$ 1,351
Accrued salaries and benefits	190,290	95,235	-	-
Deferred revenue	198,060	185,547	-	1,551
Current portion of long-term debt	22,663	29,132	65,892	47,600
Funds held for others	-	-	76,637	75,493
Other current liabilities	128,797	101,003	6,355	6,305
Total current liabilities	831,935	705,677	150,940	132,300
Noncurrent Liabilities				
Federal refundable loans	54,448	43,511	-	-
Obligations under life income agreements	-	-	45,408	47,515
Long-term debt	707,399	725,879	-	-
Other noncurrent liabilities	92,218	81,861	-	-
Total noncurrent liabilities	854,065	851,251	45,408	47,515
Total liabilities	$ 1,686,000	$ 1,556,928	$ 196,348	$ 179,815
NET ASSETS				
Invested in capital assets, net of related debt	$ 3,588,917	$ 3,310,912	$ -	$ -
Restricted:				
Nonexpendable:				
Endowments	-	-	499,459	428,948
Annuity and life income funds	-	-	20,068	23,481
Expendable:				
Endowments	-	-	220,597	268,226
Annuity and life income funds	-	-	17,572	17,564
Funds functioning as endowment	-	-	464,852	410,636
Grants and contracts	-	-	-	-
Gifts	175,252	169,267	164,274	146,662
Loans	37,037	42,885	-	-
Capital projects	45,169	140,083	-	-
Debt service	27,518	14,193	-	-
Appropriations	4,266	3,844	-	-
Other	62,899	55,965	-	-
Total restricted	352,141	426,237	1,386,822	1,295,517
Unrestricted	1,001,942	804,387	14,049	4,040
Total net assets	$ 4,943,000	$ 4,541,536	$ 1,400,871	$ 1,299,557

**See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For Fiscal Year Ended June 30, 2008, with comparative totals for 2007

(dollars in thousands)	CAMPUS* 2008	CAMPUS* 2007	FOUNDATION 2008	FOUNDATION 2007
OPERATING REVENUES				
Student tuition and fees, net	$ 345,037	$ 310,724	$ -	$ -
Grants and contracts:				
Federal	601,428	612,430	-	-
State	60,554	43,961	-	-
Private	162,179	140,001	-	-
Local	39,044	36,523	-	-
Sales and services:				
Medical centers	1,163,429	1,065,018	-	-
Educational activities	538,104	485,346	-	-
Auxiliary enterprises, net	310,416	295,528	-	-
Private gifts	-	-	184,652	146,417
Other operating revenues, net	53,400	47,637	-	-
Total operating revenues	3,273,591	3,037,168	184,652	146,417
OPERATING EXPENSES				
Salaries and wages	2,105,857	1,935,290	-	-
Benefits	425,976	393,544	-	-
Scholarships and fellowships	60,623	52,322	-	-
Utilities	101,806	91,076	-	-
Supplies and materials	445,248	410,812	-	-
Depreciation	183,733	168,363	-	-
Campus foundation grants	-	-	139,910	161,742
Other operating expenses	622,015	593,521	861	840
Total operating expenses	3,945,258	3,644,928	140,771	162,582
Operating loss	(671,667)	(607,760)	43,881	(16,165)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	642,755	603,571	-	-
State financing appropriations	29,543	26,842	-	-
Private gifts	170,303	181,153	-	-
Investment income	-	-	69,422	77,386
Other	893	1,070	-	-
Increase (decrease) in fair value of investments	-	-	(74,898)	76,128
Interest expense	(34,397)	(28,013)	-	-
Gain (loss) on disposal of capital assets, net	5,826	12,043	-	-
Other nonoperating revenues (expenses)	(6,432)	1,589	1,247	(10,657)
Net nonoperating revenues (expenses)	808,491	798,255	(4,229)	142,857
Income (loss) before other change net assets	136,824	190,495	39,652	126,692
OTHER CHANGES IN NET ASSETS				
State capital appropriations	40,003	14,313	-	-
Capital gifts and grants	99,855	127,195	-	-
Permanent endowments	-	-	61,662	39,647
Transfers	124,782	(81,291)	-	-
Increase in net assets	401,464	250,712	101,314	166,339
NET ASSETS				
Net assets, beginning of year	4,541,536	4,290,824	1,299,557	1,133,218
Cumulative effect of a change in accounting principle	-	-	-	-
Net assets, end of year	$ 4,943,000	$ 4,541,536	$ 1,400,871	$ 1,299,557

**See accompanying Notes to Financial Statements.*

TRANSFERS

For Fiscal Year Ended June 30, 2008, with comparative totals for 2007

	CAMPUS*	
(dollars in thousands)	2008	2007
Current (to)/from loans	$ -	$ -
Current:		
Intrafund	-	-
Intercampus	276,566	247,258
Interfund	(95,744)	(87,986)
Net revenue of bonds and other indebtedness programs	21,577	(69,657)
Indirect cost recovery	352	(2,923)
Net adjustments	-	-
Unexpended plant	145,584	56,158
Retirement of indebtedness	(66,325)	(68,880)
Investment in plant:		
Intrafund transfer assets	(31)	(28)
Intrafund transfer depreciation	35	11
Renewals and replacements	-	-
Loan	928	863
Indirect cost recovery	(158,160)	(156,107)
Total transfers	$ 124,782	$ (81,291)

**See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF CASH FLOWS

For Fiscal Year Ended June 30, 2008, with comparative totals for 2007

(dollars in thousands)	CAMPUS* 2008	CAMPUS* 2007	FOUNDATION 2008	FOUNDATION 2007
CASH FLOWS FOR OPERATING ACTIVITIES				
Student tuition and fees, net	$ 344,253	$ 309,865	$ -	$ -
Grants and contracts	860,393	839,831	-	-
Receipts from sales and services of:				
Medical centers	1,157,889	1,033,487	-	-
Educational activities	526,966	482,184	-	-
Auxiliary enterprises, net	311,743	295,132	-	-
Collection of loans from students and employees	11,223	11,406	-	-
Private gifts	-	-	190,332	163,362
Payments to employees	(1,998,186)	(1,927,401)	-	-
Payments to OPEB	(45,789)	(40,341)	-	-
Payments for benefits	(380,694)	(342,646)	-	-
Payments to suppliers and utilities	(1,171,569)	(1,047,652)	-	-
Payments for scholarships and fellowships	(60,623)	(52,322)	-	-
Loans issued to students and employees	(12,322)	(14,512)	-	-
Operating expenses and grants	-	-	(144,517)	(162,582)
Other receipts (payments)	72,192	37,215	2,394	2,248
Net cash used by operating activities	(384,524)	(415,754)	48,209	3,028
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	642,755	603,571	-	-
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	-	-	61,662	39,647
Other private gifts	175,802	163,843	-	-
Other receipts (payments)	4,100	3,985	-	-
Net cash provided by noncapital financing activities	822,657	771,399	61,662	39,647
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	-	-	-	-
Payments of principal	-	-	-	-
Interest paid	-	-	-	-
State capital appropriations	37,531	11,115	-	-
State financing appropriations	15,727	13,153	-	-
Capital gifts and grants	30,157	113,950	-	-
Proceeds from debt issuance	190,682	262,090	-	-
Proceeds from the sale of capital assets	-	16,360	-	-
Purchases of capital assets	(362,543)	(361,301)	-	-
Refinancing/prepayment of outstanding debt	(196,164)	(38,618)	-	-
Principal paid on debt and capital leases	(18,886)	(20,951)	-	-
Interest paid on debt and capital leases	(22,903)	(22,786)	-	-
Net cash used by capital and related financing activities	(326,399)	(26,988)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	119,736	141,549
Purchase of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	(251,274)	(207,278)
Investment income, net of investment expenses	-	-	21,656	22,325
Net cash provided by investing activities	-	-	(109,882)	(43,404)
Cumulative effect of change in accounting principles	-	-	-	-
Intercampus transactions	-	-	-	-
Transfers	124,782	(81,291)	-	-
Net (decrease) increase in cash	236,516	247,366	(11)	(729)
Cash, beginning of year	1,405,813	1,158,447	731	1,460
Cash, end of year	$ 1,642,329	$ 1,405,813	$ 720	$ 731

**See accompanying Notes to Financial Statements.*

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION/FINANCIAL REPORTING ENTITY

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general-purpose financial statements as a component unit. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories, are subjected to an independent annual audit.

The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center. The accounts of the Los Angeles campus are subject to limited-scope procedures as a part of the annual audit of the financial statements of the entire University of California. The financial statements for the Los Angeles campus have not been individually audited.

ASUCLA's financial data for the fiscal year ended June 30, 2008, have been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationship with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected within the campus' records until such time as gifts are transferred from the foundation to the campus. However, in accordance with the statements of the Governmental Accounting Standards Board (GASB) detailed below, foundation activity is noted on the campus' financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the UCLA campus have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

The significant accounting policies followed by UCLA are summarized as follows:

Cash. The University considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Short-term investments. UCLA participates in a temporary investment pool that is administered by the Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Investments. Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UCLA local financial statements. These funds consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

Monies are invested by the treasurer of The Regents, and the income is transferred to individual campuses annually. A substantial portion of the net assets of the endowment and similar funds participates in a general endowment pool. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the end of the calendar month within which the transaction takes place. Investments include equities, high-yield equities, bonds and real estate.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts; pledges; educational activities; and amounts due from students, employees and faculty for services.

Pledges. Unconditional pledges of private gifts to the campus to be received in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods, and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided by federal student loan programs and other University sources. Home mortgage loans, primarily to faculty, are provided by the University's Short-Term Investment Pool and other University sources. Mortgage loans provided by the Short-Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Land, infrastructure, buildings, equipment, libraries and collections. Land, infrastructure, buildings and improvements, equipment, libraries and collections, and special collections are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections, and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the life of the applicable lease or the economic life of the asset, whichever is shorter.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Library books and materials	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets — such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections — are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Funds held for others. Funds held for others result from the University acting as an agent or fiduciary on behalf of organizations that are not significant or financially accountable to the University.

Federal refundable loans. Certain loans to students are administered by the campus with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Net assets. Net assets are classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the campus' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The campus classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally imposed restrictions that must be retained in perpetuity by the University are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds. Because the Office of the President administers these funds, UCLA's local financial statements do not reflect balances for nonexpendable assets.

Expendable. Net assets whose use by the campus or campus foundation is subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Revenues and expenses. Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the UCLA campus and medical centers are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues on the foundation's statements since, in contrast to the University, such contributions are fundamental to the core mission of the foundations. When the gift is transferred from a foundation to the campus, the campus records the revenue as nonoperating revenue.

Nonoperating revenues and expenses include state educational appropriations (for the support of UCLA operating expenses); state financing appropriations; private gifts for other than capital purposes; investment income, net unrealized appreciation or depreciation in the fair value of investments; interest expense; and gain or loss on the disposal of capital assets.

State capital appropriations and capital gifts and grants are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University, which are allocated to the campuses on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant revenue.

Grant and contract revenue. UCLA receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. The recovery of facilities and administrative costs of federally sponsored programs are at cost reimbursement rates negotiated with the University's federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2008, the facilities and administrative cost recovery totaled $161 million, $130.9 million from federally sponsored programs and $30.2 million from other sponsors. For the fiscal year ended June 30, 2007, the facilities and administrative cost recovery totaled $158.3 million, $135 million from federally sponsored programs and $23.3 million from other sponsors.

The majority of the recovery of facilities and administrative costs from contract and grant activity are transferred to the Office of the President as part of the closing process and then reallocated at a designated rate to the campus in the next fiscal year. The amount transferred for 2008 was $158.2 million; the amount transferred for 2007 was $156.1 million. The remaining balances not transferred are attributed to projects classified as clinical drug trials.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payers, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payers. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

Scholarship allowances. The campus recognizes certain scholarship allowances, which include both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc., and the amount that is paid by the student or by third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2008 and 2007:

(dollars in thousands)	2008	2007
Student tuition and fees	$ 117,701	$ 112,265
Sales and services of auxiliary enterprises	32,017	31,648
Scholarship allowances	$ 149,718	$ 143,913

Compensated absences. UCLA accrues annual leave for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. UCLA is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Comparative information. 2007 financial information is included as comparative values to the 2008 presentation.

1. CASH

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2008 and 2007, the carrying amount of UCLA's equity in the Treasurer's investment, transferred to the Treasurer's Office as part of the University's investment, was $1.61 billion and $1.38 billion, respectively, compared with bank balances of $35.4 million and $23.8 million, respectively. The timing of deposits in transit, varying from year to year, is the primary difference.

2. INVESTMENTS HELD BY TRUSTEES

UCLA has entered into agreements with trustees to maintain trusts for long-term debt requirements. All investments held by trustees are insured, registered or held by the campus' trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Noncurrent investments held by trustees are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $5.8 million and $11.9 million at June 30, 2008 and 2007, respectively. The balance represents the unspent proceeds plus accumulated investment income of State Public Works revenue bonds that are held by the trustees. The decrease during 2008 of $6.1 million is attributed to cash payments made from this account as expenditures, applicable to the Ronald Reagan UCLA Medical Center project, were presented for reimbursement.

UCLA's deposits into the trusts, or receipts from the trust, are classified as a capital and related financing activity in the statement of cash flows as it is related to long-term debt requirements. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in the campus' statement of cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2008 and 2007, are as follows:

(dollars in thousands)	STATE & FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
At June 30, 2008				
Accounts receivable	$ 97,750	$ 298,178	$ 160,747	$ 556,675
Allowance for uncollectible amounts	(75)	(63,420)	(8,378)	(71,873)
Accounts receivable, net	$ 97,675	$ 234,758	$ 152,369	$ 484,802
At June 30, 2007				
Accounts receivable	$ 93,026	$ 278,563	$ 136,799	$ 508,388
Allowance for uncollectible amounts	(25)	(49,345)	(8,193)	(57,563)
Accounts receivable, net	$ 93,001	$ 229,218	$ 128,606	$ 450,825

(Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees, and auxiliary enterprises.)

4. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2008 and 2007 is summarized as follows:

(dollars in thousands)	2008	2007
Total pledges receivable outstanding	$ 23,345	$ 31,665
Less: Unamortized discount to present value	(1,574)	(3,538)
Allowance for uncollectible pledges	(450)	(1,260)
Total pledges receivable, net	21,321	26,867
Less: Current portion of pledges receivable	(6,105)	(7,747)
Noncurrent portion of pledges receivable	$ 15,216	$ 19,120

5. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2008 and 2007, along with allowances for uncollectible amounts, are as follows:

(dollars in thousands)	CURRENT	NONCURRENT NOTES	NONCURRENT MORTGAGES	TOTAL
At June 30, 2008				
Notes and mortgages receivable	$ 6,336	$ 55,532	$ 10,204	$ 72,072
Allowance for uncollectible amounts	(504)	(1,454)	(120)	(2,078)
Notes and mortgages receivable, net	$ 5,832	$ 54,078	$ 10,084	$ 69,994
At June 30, 2007				
Notes and mortgages receivable	$ 6,386	$ 57,477	$ 6,912	$ 70,775
Allowance for uncollectible amounts	(465)	(1,613)	(115)	(2,193)
Notes and mortgages receivable, net	$ 5,921	$ 55,864	$ 6,797	$ 68,582

6. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

The campus' capital asset activity for the years ended June 30, 2008 and 2007, is as follows:

(dollars in thousands)	2006	ADDITIONS	DISPOSALS	2007	ADDITIONS	DISPOSALS	2008
ORIGINAL COST							
Land	$ 80,207	$ 4,230	$ (1,600)	$ 82,837	$ 2,658	$ -	$ 85,495
Infrastructure	7,754	-	-	7,754	225	-	7,979
Buildings and improvements	2,958,543	34,269	(3,029)	2,989,783	1,516,180	(403)	4,505,560
Equipment	831,168	77,821	(45,718)	863,271	143,726	(80,392)	926,605
Libraries and collections	486,687	20,878	-	507,565	21,968	-	529,533
Special collections	61,175	3,854	(74)	64,955	6,191	-	71,146
Construction in progress	1,576,283	254,318	-	1,830,601	(1,247,319)	-	583,282
Capital assets, at original cost	$ 6,001,817	$ 395,370	$ (50,421)	$ 6,346,766	$ 443,629	$ (80,795)	$ 6,709,600

	2006	DEPRECIATION & AMORTIZATION	DISPOSALS	2007	DEPRECIATION & AMORTIZATION	DISPOSALS	2008
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 5,845	$ 136	$ -	$ 5,981	$ 136	$ -	$ 6,117
Buildings and improvements	1,275,984	90,455	(2,023)	1,364,416	99,404	(1,347)	1,462,473
Equipment	530,093	72,300	(44,092)	558,301	75,623	(85,303)	548,621
Libraries and collections	359,407	5,472	-	364,879	8,571	-	373,450
Accumulated depreciation and amortization	$ 2,171,329	$ 168,363	$ (46,115)	$ 2,293,577	$ 183,734	$ (86,650)	$ 2,390,661
Capital assets, net	$ 3,830,488			$ 4,053,189			$ 4,318,939

7. DEBT

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Both commercial paper, which provides for interim financing, and pooled revenue bonds are accounted for on a systemwide basis. Long-term financing reported at the campus level includes campus-specific revenue bonds, certificates of participation, mortgages and other borrowings, and capital lease obligations.

UCLA's outstanding debt at June 30, 2008 and 2007, is as follows:

(dollars in thousands)	INTEREST RATES	MATURITY YEARS	2008	2007
LONG-TERM FINANCING				
Hospital Revenue Bonds Series 2004 & 2007, net	* 2.672 - 5.5 %	2009 - 2047	$ 540,752	$ 543,175
Mortgages and other borrowings	2.95 - 3.13 %	2009 - 2010	15,562	22,912
Capital lease obligations - state lease revenue bonds	* 2.6 - 5 %	2009 - 2023	142,805	149,245
Capital lease obligations	3.20 - 9.75 %	2009 - 2014	30,943	39,679
Total long-term outstanding debt			$ 730,062	$ 755,011

* bond coupon rates are shown

Outstanding Debt Activity

Activity with respect to the campus' current and noncurrent debt for the years ended June 30, 2008 and 2007, is as follows:

(dollars in thousands)	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
YEAR ENDED JUNE 30, 2008				
Current portion at June 30, 2007	$ 5,609	$ -	$ 23,523	$ 29,132
Reclassification from noncurrent	186,920	7,974	20,180	215,074
Refinance or prepay of principal on bank loan	(188,190)	(7,974)	-	(196,164)
Principal payments and amortizations	(1,733)	-	(23,646)	(25,379)
Current portion at June 30, 2008	2,606	-	20,057	22,663
Noncurrent portion at June 30, 2007	537,566	22,912	165,401	725,879
New obligations	187,500	624	8,470	196,594
Reclassification to current	(186,920)	(7,974)	(20,180)	(215,074)
Noncurrent portion at June 30, 2008	538,146	15,562	153,691	707,399
TOTAL	$ 540,752	$ 15,562	$ 173,748	$ 730,062
YEAR ENDED JUNE 30, 2007				
Current portion at June 30, 2006	$ 5,437	$ 36	$ 21,257	$ 26,730
Reclassification from noncurrent	5,624	38,622	24,357	68,603
Refinance or prepay of principal on bank loan	-	(38,618)	-	(38,618)
Principal payments	(5,452)	(40)	(22,091)	(27,583)
Current portion at June 30, 2007	5,609	-	23,523	29,132
Noncurrent portion at June 30, 2006	291,112	57,387	175,915	524,414
New obligations	252,078	4,147	13,843	270,068
Reclassification to current	(5,624)	(38,622)	(24,357)	(68,603)
Noncurrent portion at June 30, 2007	537,566	22,912	165,401	725,879
TOTAL	$ 543,175	$ 22,912	$ 188,924	$ 755,011

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, and serial and term maturities; they contain sinking fund requirements and may have optional redemption provisions.

Revenue bonds for medical centers and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of facilities and administrative rate recoveries received on federal research grants and contracts performed by the University. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues, after expenses and requirements for senior lien indentures, equal to 1.25 times debt service and to maintain certain other financial covenants. The Hospital Revenue Bonds require the University to achieve net revenues of 1.1 times to 1.2 times debt services (depending on the indenture); set limitations on encumbrances, indebtedness, disposition of assets and transfer services; and maintain certain other financial covenants. The Multiple Purpose Projects Revenue Bond and Hospital Revenue Bond indentures require the University to use the facilities in a way that will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property.

As part of the University, UCLA may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Line-of-credit commitments, with various expiration dates through 2010, totaled $19 million at June 30, 2008. Outstanding borrowing under these bank lines totaled $15.6 million and $22.9 million at June 30, 2008 and 2007, respectively, and is included in mortgages and other borrowings.

Capital Leases

Capital leases entered into with other lessors, primarily for the replacement hospital and equipment, totaled $173.7 million in 2008, down from $188.9 million in 2007. The majority of that amount, $136.2 million, is attributed to State Lease Revenue Bonds issued to finance the UCLA replacement hospitals in Santa Monica and Westwood; the bonds mature in 2022.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2008, and thereafter are as follows:

(dollars in thousands) Year Ending June 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
2009	$ 27,327	$ -	$ 759	$ 13,778	$ 14,343	$ 56,207	$ 22,612	$ 33,596
2010	27,330	-	16,313	13,766	7,425	64,834	32,038	32,796
2011	27,327	-	-	13,744	5,421	46,492	15,131	31,360
2012	30,082	-	-	13,733	3,950	47,765	17,089	30,676
2013	30,446	-	-	13,754	1,798	45,998	16,071	29,927
2014-2018	152,266	-	-	68,379	-	220,644	83,175	137,469
2019-2023	150,953	-	-	68,055	-	219,009	106,115	112,894
2024-2028	149,186	-	-	-	-	149,186	56,050	93,136
2029-2033	149,556	-	-	-	-	149,556	70,665	78,891
2034-2038	150,033	-	-	-	-	150,033	88,750	61,283
2039-2043	150,730	-	-	-	-	150,730	111,325	39,405
2044-2048	121,397	-	-	-	-	121,397	109,030	12,366
Total future debt service	1,166,633	-	17,072	205,209	32,937	1,421,851	$ 728,051	$ 693,799
Less interest component of future payments	627,893	-	1,510	62,404	1,994	693,801		
Principal portion of future payments	538,740	-	15,562	142,805	30,943	728,050		
Deferred premium & deferred financing, net - Medical Center	2,012	-	-	-	-	2,012		
Total long-term outstanding debt	$ 540,752	$ -	$ 15,562	$ 142,805	$ 30,943	$ 730,062		

(Future payments in which UCLA participates, but not included above, are the systemwide state capital leases that are held at the Office of the President. The principal portion totals $210.8 million, and interest $68.4 million, through 2030.)

8. SELF-INSURANCE AND OTHER LIABILITIES

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee healthcare and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCLA's statement of revenues, expenses and changes in net assets. UCLA's financial statements do not reflect any liability amounts for self-insurance claims, as these estimated liabilities are recorded on a systemwide basis.

Other Liabilities

UCLA's other liabilities — primarily employee leave and other compensated absences with similar characteristics, accrued interest and other general liabilities such as cash received undistributed — at June 30, 2008 and 2007, are as follows:

	2008		2007	
(dollars in thousands)	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Other liabilities:				
Compensated absences	$ 49,357	$ 91,489	$ 47,582	$ 81,861
Accrued interest	3,960	-	4,121	-
Other	75,480	729	49,300	-
Total	$ 128,797	$ 92,218	$ 101,003	$ 81,861

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2008 and 2007, is as follows:

(dollars in thousands)	COMPENSATED ABSENCES	OTHER	TOTAL
Year Ended June 30, 2008			
Liabilities at June 30, 2007	$ 81,861	$ -	$ 81,861
New obligations	51,628	1,496	$ 53,124
Reclassification to current	(42,000)	(767)	$ (42,767)
Liabilities at June 30, 2008	$ 91,489	$ 729	$ 92,218
Year Ended June 30, 2007			
Liabilities at June 30, 2006	$ 83,311	$ -	$ 83,311
New obligations	37,550	-	$ 37,550
Reclassification to current	(39,000)	-	$ (39,000)
Liabilities at June 30, 2007	$ 81,861	$ -	$ 81,861

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises and endowment income, or other revenue sources that support the employee's salary.

9. ENDOWMENTS AND FOUNDATION GIFTS

Endowments are administered either by the University or by the campus foundation. The book value and market value for endowments for the years ended June 30, 2008 and 2007, are as follows:

	2008		2007	
(dollars in thousands)	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Endowments - regental	$ 567,058	$ 1,310,379	$ 532,448	$ 1,342,368
Endowments - foundation	1,068,379	1,009,954	975,199	923,734
Total	$ 1,635,437	$ 2,320,333	$ 1,507,647	$ 2,266,102

The Regents' Endowments

The endowments held by The Regents are administered on a systemwide basis, and related investments are not reflected on UCLA's separate financial statements. The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based on a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UCLA was $34.6 million and $30.7 million for the years ended June 30, 2008 and 2007, respectively.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern The UCLA Foundation, its assets are dedicated for the benefit of UCLA. During the years ended June 30, 2008 and 2007, gifts of $114.5 million ($39 million from endowment investments and $75.5 million from current funds) and $105.6 million ($33.3 million from endowment investments and $72.3 million from current funds), respectively, were transferred to UCLA from The UCLA Foundation.

The financial activity of the separately incorporated campus foundation is discretely recorded in the University's financial statements under a separate column titled "Foundation."

10. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2008 and 2007, are as follows:

(dollars in thousands)	2008	2007
Instruction	$ 1,060,106	$ 945,603
Research	618,860	586,614
Public service	77,575	73,965
Academic support	316,832	286,661
Student services	68,462	63,425
Institutional support	133,134	124,291
Operations and maintenance of plant	89,258	82,747
Student financial aid	63,108	55,232
Medical centers	1,066,665	1,014,900
Auxiliary enterprises	239,984	222,747
Depreciation	183,733	168,363
Other	27,541	20,380
Total operating expenses	$ 3,945,258	$ 3,644,928

11. THE RETIREMENT PLAN

Most University employees participate in the University of California Retirement System (UCRS). The UCRS consists of a single-employer defined benefit plan funded by University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP), and two defined contribution plans with several investment portfolios funded by employee non-elective and elective contributions. The Board of Regents is the trustee for all UCRS and PERS-VERIP funds. Accordingly, these funds are separately identified in the systemwide annual financial report.

12. COMMITMENTS AND CONTINGENCIES

Commitments

Amounts committed but unexpended for construction projects totaled $354.1 million and $501.4 million at June 30, 2008 and 2007, respectively.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2008 and 2007, were $52.8 million and $44.6 million, respectively. The terms of operating leases extend through February 2022.

Future minimum payments on operating leases with initial or remaining noncancelable terms in excess of one year are as follows:

(dollars in thousands) YEAR ENDING JUNE 30	MINIMUM ANNUAL LEASE PAYMENTS
2009	$ 30,398
2010	25,034
2011	20,266
2012	13,946
2013	7,156
2014-2018	14,211
2019-2023	67
Total	$ 111,078

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's or UCLA's separate financial positions.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's or UCLA's separate financial positions.

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